

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarterly Period Ended
September 30, 2002

Commission File
No. 1-13653

AMERICAN FINANCIAL GROUP, INC.

Incorporated under
the Laws of Ohio

IRS Employer I.D.
No. 31-1544320

One East Fourth Street, Cincinnati, Ohio 45202
(513) 579-2121

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No

As of November 1, 2002, there were 69,073,102 shares of the Registrant's Common Stock outstanding, excluding 18,666,614 shares owned by subsidiaries.

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AMERICAN FINANCIAL GROUP, INC. 10-Q
PART I
FINANCIAL INFORMATION

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Dollars In Thousands)

	September 30, 2002	December 31, 2001
	-----	-----
ASSETS:		
Cash and short-term investments	\$ 883,202	\$ 544,173
Investments:		
Fixed maturities - at market (amortized cost - \$11,314,846 and \$10,593,305)	11,777,646	10,748,605
Other stocks - at market (cost - \$173,002 and \$187,810)	279,502	313,710
Policy loans	215,003	211,288

Real estate and other investments	244,531	266,545
	-----	-----
Total investments	12,516,682	11,540,148
Recoverables from reinsurers and prepaid reinsurance premiums	2,678,900	2,286,509
Agents' balances and premiums receivable	790,144	666,171
Deferred acquisition costs	902,114	818,323
Other receivables	288,904	254,255
Variable annuity assets (separate accounts)	437,000	529,590
Prepaid expenses, deferred charges and other assets	478,645	453,718
Goodwill	309,254	308,794
	-----	-----
	\$19,284,845	\$17,401,681
	=====	=====

LIABILITIES AND CAPITAL:

Unpaid losses and loss adjustment expenses	\$ 5,006,795	\$ 4,777,580
Unearned premiums	1,908,904	1,640,955
Annuity benefits accumulated	6,233,334	5,832,120
Life, accident and health reserves	939,878	638,522
Payable to reinsurers	465,449	296,462
Long-term debt:		
Holding companies	542,994	608,960
Subsidiaries	270,723	270,752
Variable annuity liabilities (separate accounts)	437,000	529,590
Amounts due brokers for securities purchased	249,151	31,417
Accounts payable, accrued expenses and other liabilities	1,031,051	822,214
	-----	-----
Total liabilities	17,085,279	15,448,572
Minority interest	475,135	454,730
Shareholders' Equity:		
Common Stock, no par value		
- 200,000,000 shares authorized		
- 68,973,532 and 68,491,610 shares outstanding	68,974	68,492
Capital surplus	920,017	911,074
Retained earnings	414,540	359,513
Unrealized gain on marketable securities, net	320,900	159,300
	-----	-----
Total shareholders' equity	1,724,431	1,498,379
	-----	-----
	\$19,284,845	\$17,401,681
	=====	=====

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(In Thousands, Except Per Share Data)

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
INCOME:				
Property and casualty insurance premiums	\$605,012	\$ 664,381	\$1,827,855	\$1,988,667
Life, accident and health premiums	80,972	69,116	224,616	208,807
Investment income	215,607	217,516	647,635	638,755
Realized gains (losses) on:				
Securities	(23,096)	(22)	(88,530)	(33,328)
Subsidiaries	(10,769)	7,065	(10,769)	5,479
Other investments	9,253	-	9,253	-
Other income	66,450	56,780	177,175	171,945
	-----	-----	-----	-----
	943,429	1,014,836	2,787,235	2,980,325
COSTS AND EXPENSES:				
Property and casualty insurance:				
Losses and loss adjustment expenses	443,625	626,642	1,345,575	1,649,269
Commissions and other underwriting expenses	158,848	189,327	495,803	567,203
Annuity benefits	68,685	74,016	215,226	213,996
Life, accident and health benefits	69,579	53,952	184,891	160,246
Interest charges on borrowed money	15,647	14,924	44,486	45,883
Other operating and general expenses	135,642	118,404	375,076	345,187
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	892,026	1,077,265	2,661,057	2,981,784
	-----	-----	-----	-----
Operating earnings (loss) before income taxes	51,403	(62,429)	126,178	(1,459)
Provision (credit) for income taxes	15,447	(22,152)	19,376	(4,547)
	-----	-----	-----	-----
Net operating earnings (loss)	35,956	(40,277)	106,802	3,088
Minority interest expense, net of tax	(6,330)	(9,028)	(18,189)	(27,346)
Equity in net losses of investees, net of tax	(2,746)	(6,395)	(7,833)	(12,042)
	-----	-----	-----	-----
Earnings (loss) before cumulative effect of accounting change	26,880	(55,700)	80,780	(36,300)
Cumulative effect of accounting change	-	-	-	(10,040)
	-----	-----	-----	-----
NET EARNINGS (LOSS)	\$ 26,880	(\$ 55,700)	\$ 80,780	(\$ 46,340)
	=====	=====	=====	=====

BASIC EARNINGS (LOSS) PER COMMON SHARE:				
Before accounting change	\$.39	(\$.82)	\$1.18	(\$.53)
Cumulative effect of accounting change	-	-	-	(.15)
	----	----	-----	----
Net earnings (loss) available to Common Shares	\$.39	(\$.82)	\$1.18	(\$.68)
	=====	=====	=====	=====
DILUTED EARNINGS (LOSS) PER COMMON SHARE:				
Before accounting change	\$.39	(\$.81)	\$1.17	(\$.52)
Cumulative effect of accounting change	-	-	-	(.15)
	----	----	-----	----
Net earnings (loss) available to Common Shares	\$.39	(\$.81)	\$1.17	(\$.67)
	=====	=====	=====	=====
Average number of Common Shares:				
Basic	68,873	68,028	68,717	67,799
Diluted	69,155	68,494	69,177	68,312
Cash dividends per Common Share	\$.125	\$.25	\$.375	\$.75

AMERICAN FINANCIAL GROUP, INC. 10-Q

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 (Dollars in Thousands)

	Common Shares	Common Stock and Capital Surplus	Retained Earnings	Unrealized Gain on Securities	Total
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BALANCE AT JANUARY 1, 2002	68,491,610	\$979,566	\$359,513	\$159,300	\$1,498,379
Net earnings	-	-	80,780	-	80,780
Change in unrealized	-	-	-	161,600	161,600
Comprehensive income					242,380
Dividends on Common Stock	-	-	(25,744)	-	(25,744)
Shares issued:					
Exercise of stock options	26,537	608	-	-	608
Dividend reinvestment plan	201,051	4,410	-	-	4,410
Employee stock purchase plan	33,699	858	-	-	858
Retirement plan contributions	216,740	5,599	-	-	5,599
Deferred compensation distributions	1,809	45	-	-	45
Directors fees paid in stock	2,875	72	-	-	72
Shares acquired and retired	(789)	(11)	(9)	-	(20)
Tax effect of intercompany dividends	-	(2,400)	-	-	(2,400)
Other	-	244	-	-	244
BALANCE AT SEPTEMBER 30, 2002	68,973,532	\$988,991	\$414,540	\$320,900	\$1,724,431
	=====	=====	=====	=====	=====
BALANCE AT JANUARY 1, 2001	67,410,091	\$965,654	\$442,276	\$140,600	\$1,548,530
Net loss	-	-	(46,340)	-	(46,340)
Change in unrealized	-	-	-	118,700	118,700
Comprehensive income					72,360
Dividends on Common Stock	-	-	(50,819)	-	(50,819)
Shares issued:					
Exercise of stock options	54,435	1,289	-	-	1,289
Employee stock purchase plan	39,642	1,046	-	-	1,046
Retirement plan contributions	711,477	17,007	-	-	17,007
Directors fees paid in stock	2,874	72	-	-	72
Deferred compensation distributions	331	9	-	-	9
Shares acquired and retired	(3,538)	(51)	(49)	-	(100)
Tax effect of intercompany dividends	-	(4,800)	-	-	(4,800)
Capital transactions of subsidiaries	-	(375)	-	-	(375)
Other	-	(1,249)	-	-	(1,249)
BALANCE AT SEPTEMBER 30, 2001	68,215,312	\$978,602	\$345,068	\$259,300	\$1,582,970
	=====	=====	=====	=====	=====

AMERICAN FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands)

	Nine months ended September 30,	
	2002	2001
	----	----
OPERATING ACTIVITIES:		
Net earnings (loss)	\$ 80,780	(\$ 46,340)
Adjustments:		
Cumulative effect of accounting change	-	10,040
Equity in net losses of investees	7,833	12,042
Depreciation and amortization	150,841	111,608
Annuity benefits	215,226	213,996
Realized losses on investing activities	82,206	1,106
Deferred annuity and life policy acquisition costs	(121,160)	(111,377)
Increase in reinsurance and other receivables	(514,206)	(382,233)
Increase in other assets	(75,299)	(32,858)
Increase in insurance claims and reserves	561,134	589,761
Increase in payable to reinsurers	168,987	120,443
Increase in other liabilities	100,615	56,490
Increase in minority interest	2,905	9,509
Other, net	1,428	16,173
	661,290	568,360
	-----	-----
INVESTING ACTIVITIES:		
Purchases of and additional investments in:		
Fixed maturity investments	(3,718,410)	(1,609,151)
Equity securities	(9,217)	(5,556)
Subsidiary	(48,500)	-
Real estate, property and equipment	(37,870)	(43,660)
Maturities and redemptions of fixed maturity investments	1,256,037	579,916
Sales of:		
Fixed maturity investments	2,057,781	666,593
Equity securities	20,144	11,978
Subsidiaries	-	40,395
Real estate, property and equipment	12,731	46,683
Cash and short-term investments of acquired (former) subsidiaries, net	4,392	(134,237)
Decrease (increase) in other investments	26,432	(4,711)
	(436,480)	(451,750)
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FINANCING ACTIVITIES:

Fixed annuity receipts	599,174	454,189
Annuity surrenders, benefits and withdrawals	(410,561)	(482,997)
Net transfers from variable annuity assets	12,318	3,252
Additional long-term borrowings	79,000	185,668
Reductions of long-term debt	(145,655)	(102,067)
Issuances of Common Stock	1,317	2,078
Repurchase of trust preferred securities	-	(75,000)
Cash dividends paid	(21,374)	(50,819)
	-----	-----
	114,219	(65,696)
	-----	-----
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	339,029	50,914
Cash and short-term investments at beginning of period	544,173	438,670
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Cash and short-term investments at end of period	\$ 883,202	\$ 489,584
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ACCOUNTING POLICIES

BASIS OF PRESENTATION The accompanying consolidated financial statements for American Financial Group, Inc. ("AFG") and subsidiaries are unaudited; however, management believes that all adjustments (consisting only of normal recurring accruals unless otherwise disclosed herein) necessary for fair presentation have been made. The results of operations for interim periods are not necessarily indicative of results to be expected for the year. The financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary to be in conformity with generally accepted accounting principles.

Certain reclassifications have been made to prior years to conform to the current year's presentation. All significant intercompany balances and transactions have been eliminated. All acquisitions have been treated as purchases. The results of operations of companies since their formation or acquisition are included in the consolidated financial statements.

The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Changes in circumstances could cause actual results to differ materially from those estimates.

INVESTMENTS All fixed maturity securities are considered "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of shareholders' equity. Short-term investments are carried at cost; loans receivable are carried primarily at the aggregate unpaid balance. Premiums and discounts on mortgage-backed securities are amortized over a period based on estimated future principal payments and adjusted to reflect actual payments.

Gains or losses on securities are determined on the specific identification basis. When a decline in the value of a specific investment is considered to be other than temporary, a provision for impairment is charged to earnings and the cost basis of that investment is reduced.

Emerging Issues Task Force Issue No. 99-20 established a new standard for recognizing interest income and impairment on certain asset-backed investments. Interest income on these investments is recorded at a yield based on projected cash flows. The yield is adjusted prospectively to reflect actual cash flows and changes in projected amounts. Impairment losses on these investments must be recognized when (i) the fair value of the security is less than its cost basis and (ii) there has been an adverse change in the expected cash flows. The new standard became effective on April 1, 2001. Impairment losses on initial application of this rule were recognized as the cumulative effect of an accounting change. Subsequent impairments are recognized as a component of net realized gains and losses.

GOODWILL Goodwill represents the excess of cost of subsidiaries over AFG's equity in their underlying net assets. Through December 31, 2001, goodwill was being amortized over periods of 20 to 40 years. Effective January 1, 2002, AFG implemented Statement of Financial Accounting Standards ("SFAS") No. 142, under which goodwill is no longer amortized but is subject to an impairment test at least annually. As required under SFAS No. 142, AFG will complete the transitional test for goodwill impairment (as of January 1, 2002) by the end of 2002. Any resulting write-down will be reported by restating first quarter 2002 results for the cumulative effect of a change in accounting principle.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

INSURANCE As discussed under "Reinsurance" below, unpaid losses and loss adjustment expenses and unearned premiums have not been reduced for reinsurance recoverable.

REINSURANCE In the normal course of business, AFG's insurance subsidiaries cede reinsurance to other companies to diversify risk and limit maximum loss arising from large claims. To the extent that any reinsuring companies are unable to meet obligations under agreements covering reinsurance ceded, AFG's insurance subsidiaries would remain liable. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. AFG's insurance subsidiaries report as assets (a) the estimated reinsurance recoverable on unpaid losses, including an estimate for losses incurred but not reported, and (b) amounts paid to reinsurers applicable to the unexpired terms of policies in force. Payable to reinsurers includes ceded premiums retained by AFG's insurance subsidiaries under contracts to fund ceded losses as they become due. AFG's insurance subsidiaries also assume reinsurance from other companies. Income on reinsurance assumed is recognized based on reports received from ceding companies.

DEFERRED ACQUISITION COSTS ("DPAC") Policy acquisition costs (principally commissions, premium taxes and other marketing and underwriting expenses) related to the production of new business are deferred. For the property and casualty companies, DPAC is limited based upon recoverability without any consideration for anticipated investment income and is charged against income ratably over the terms of the related policies.

DPAC related to annuities and universal life insurance products is deferred to the extent deemed recoverable and amortized, with interest, in relation to the present value of expected gross profits on the policies. To the extent that realized gains and losses result in adjustments to the amortization of DPAC related to annuities, such adjustments are reflected as components of realized gains. DPAC related to annuities is also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from securities had actually been realized. This adjustment is included in unrealized gains (losses) on marketable securities.

DPAC related to traditional life and health insurance is amortized over the expected premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES The net liabilities stated for unpaid claims and for expenses of investigation and adjustment of unpaid claims are based upon (a) the accumulation of case estimates for losses reported prior to the close of the accounting period on direct business written; (b) estimates received from ceding reinsurers and insurance pools and associations; (c) estimates of unreported losses based on past experience; (d) estimates based on experience of expenses for investigating and adjusting claims and (e) the current state of the law and coverage litigation. Establishing reserves for asbestos and environmental claims involves considerably more judgment than other types of claims due to, among other things, inconsistent court decisions, an increase in bankruptcy filings as a result of asbestos-related liabilities, novel theories of coverage, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage.

Loss reserve liabilities are subject to the impact of changes in claim amounts and frequency and other factors. Changes in estimates of the liabilities for losses and loss adjustment expenses are reflected in the Statement of Operations in the period in which determined. In spite of the variability inherent in such

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate.

ANNUITY BENEFITS ACCUMULATED Annuity receipts and benefit payments are recorded as increases or decreases in "annuity benefits accumulated" rather than as revenue and expense. Increases in this liability for interest credited are charged to expense and decreases for surrender charges are credited to other income.

LIFE, ACCIDENT AND HEALTH RESERVES LIABILITIES for future policy benefits under traditional life, accident and health policies are computed using the net level premium method. Computations are based on the original projections of investment yields, mortality, morbidity and surrenders and include provisions for unfavorable deviations. Reserves established for accident and health claims are modified as necessary to reflect actual experience and developing trends.

VARIABLE ANNUITY ASSETS AND LIABILITIES Separate accounts related to variable annuities represent deposits invested in underlying investment funds on which Great American Financial Resources, Inc. ("GAFRI"), an 83%-owned subsidiary, earns a fee. Investment funds are selected and may be changed only by the policyholder, who retains all investment risk. Accordingly, GAFRI's liability for these accounts equals the value of the account assets.

PREMIUM RECOGNITION Property and casualty premiums are earned over the terms of the policies on a pro rata basis. Unearned premiums represent that portion of premiums written which is applicable to the unexpired terms of policies in force. On reinsurance assumed from other insurance companies or written through various underwriting organizations, unearned premiums are based on reports received from such companies and organizations. For traditional life, accident and health products, premiums are recognized as revenue when legally collectible from policyholders. For interest-sensitive life and universal life products, premiums are recorded in a policyholder account which is reflected as a liability. Revenue is recognized as amounts are assessed against the policyholder account for mortality coverage and contract expenses.

POLICYHOLDER DIVIDENDS Dividends payable to policyholders are included in "Accounts payable, accrued expenses and other liabilities" and represent estimates of amounts payable on participating policies which share in favorable underwriting results. Estimates are accrued during the period in which premiums are earned. Changes in estimates are included in income in the period determined. Policyholder dividends do not become legal liabilities unless and until declared by the boards of directors of the insurance companies.

MINORITY INTEREST For balance sheet purposes, minority interest represents the interests of noncontrolling shareholders in AFG subsidiaries, including American Financial Corporation ("AFC") preferred stock and preferred securities issued by trust subsidiaries of AFG. For income statement purposes, minority interest expense represents those shareholders' interest in the earnings of AFG subsidiaries as well as AFC preferred dividends and accrued distributions on the trust preferred securities.

INCOME TAXES AFC files consolidated federal income tax returns which include all 80%-owned U.S. subsidiaries, except for certain life insurance subsidiaries and their subsidiaries. Because holders of AFC Preferred Stock hold in excess of 20% of AFC's voting rights, AFG (parent) and its direct subsidiary, AFC Holding Company ("AFC Holding" or "AFCH"), are not eligible to file consolidated returns with AFC, and therefore, file separately.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Deferred income taxes are calculated using the liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases and are measured using enacted tax rates. Deferred tax assets are recognized if it is more likely than not that a benefit will be realized.

STOCK-BASED COMPENSATION As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," AFG accounts for stock options and other stock-based compensation plans using the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under AFG's stock option plan, options are granted to officers, directors and key employees at exercise prices equal to the fair value of the shares at the dates of grant. No compensation expense is recognized for stock option grants.

BENEFIT PLANS AFG provides retirement benefits to qualified employees of participating companies through contributory and noncontributory defined contribution plans contained in AFG's Retirement and Savings Plan. The Company makes all contributions to the retirement fund and matches a portion of employee contributions to the savings fund. Employees have been permitted to direct the investment of their contributions to independently managed investment funds, while Company contributions have been invested primarily in securities of AFG and affiliates. Employees are being afforded the flexibility to direct the investment of a portion of their vested retirement fund account balances (increasing from 12.5% in July 2002 to 100% in April 2004) from securities of AFG and its affiliates to independently managed investment funds. As of September 30, 2002, the Plan owned 12% of AFG's outstanding Common Stock. Company contributions are charged against earnings in the year for which they are declared.

AFG and many of its subsidiaries provide health care and life insurance benefits to eligible retirees. AFG also provides postemployment benefits to former or inactive employees (primarily those on disability) who were not deemed retired under other company plans. The projected future cost of providing these benefits is expensed over the period employees earn such benefits.

DERIVATIVES Derivatives included in AFG's Balance Sheet consist primarily of investments in common stock warrants (included in other stocks), the equity-based component of certain annuity products (included in annuity benefits accumulated) and call options (included in other investments) used to mitigate the risk embedded in the equity-indexed annuity products. Changes in the fair value of derivatives are included in current earnings.

EARNINGS PER SHARE Basic earnings per share is calculated using the weighted average number of shares of common stock outstanding during the period. The calculation of diluted earnings per share includes the following dilutive effect of common stock options: third quarter of 2002 and 2001 - 282,000 shares and 466,000 shares; nine months of 2002 and 2001 - 460,000 shares and 513,000 shares, respectively.

STATEMENT OF CASH FLOWS For cash flow purposes, "investing activities" are defined as making and collecting loans and acquiring and disposing of debt or equity instruments and property and equipment. "Financing activities" include obtaining resources from owners and providing them with a return on their investments, borrowing money and repaying amounts borrowed. Annuity receipts, benefits and withdrawals are also reflected as financing activities. All other activities are considered "operating". Short-term investments having original maturities of three months or less when purchased are considered to be cash

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

equivalents for purposes of the financial statements.

B. ACQUISITIONS AND SALES OF SUBSIDIARIES

NEW JERSEY PRIVATE PASSENGER AUTOMOBILE INSURANCE BUSINESS In September 2002, an AFG subsidiary entered into an agreement under which Palisades Safety and Insurance Association and Palisades Insurance Company will assume the subsidiary's obligations to renew its private passenger automobile insurance business written in New Jersey. AFG recognized a \$10.8 million pretax loss on the transaction. As of September 9, 2002, AFG no longer accepts any new private passenger automobile insurance in that state.

MANHATTAN NATIONAL LIFE INSURANCE On June 28, 2002, GAFRI acquired Manhattan National Life Insurance Company ("MNL") from Consec, Inc. for \$48.5 million in cash. At June 30, 2002, MNL had approximately \$290 million of assets and statutory capital and surplus of \$27.5 million.

SEVEN HILLS INSURANCE COMPANY In July 2001, AFG sold Seven Hills Insurance Company for \$18.4 million, realizing a pretax gain of \$7.1 million. As a part of the sale, AFG assumed all liability for Seven Hills' business prior to the date of the sale.

JAPANESE DIVISION In December 2000, AFG agreed to sell its Japanese property and casualty division to Mitsui Marine & Fire Insurance Company of America for \$22 million in cash and recorded an estimated \$10.7 million pretax loss. Upon completion of the sale in March 2001, AFG realized an additional pretax loss of \$1.6 million and deferred a gain of approximately \$21 million on ceded insurance; the deferred gain is being recognized over the estimated settlement period (weighted average of 4 years) of the ceded claims.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

- C. SEGMENTS OF OPERATIONS AFG's property and casualty group is engaged primarily in specialty and private passenger automobile insurance businesses. The Specialty group includes a highly diversified group of specialty business units. Some of the more significant areas are inland and ocean marine, California workers' compensation, agricultural-related coverages, executive and professional liability, fidelity and surety bonds, collateral protection, and umbrella and excess coverages. The Personal group writes nonstandard and preferred/standard private passenger auto and other personal insurance coverage. AFG's annuity, life and health business markets primarily retirement products as well as life and supplemental health insurance.

The following table (in thousands) shows AFG's revenues and operating profit (loss) by significant business segment. Operating profit (loss) represents total revenues less operating expenses.

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
REVENUES (a)				
Property and casualty insurance:				
Premiums earned:				
Specialty	\$403,738	\$ 390,254	\$1,130,439	\$1,062,749
Personal	201,290	273,905	697,110	924,166
Other lines	(16)	222	306	1,752
	-----	-----	-----	-----
Investment and other income	605,012	664,381	1,827,855	1,988,667
	99,196	117,233	275,133	331,008
	-----	-----	-----	-----
	704,208	781,614	2,102,988	2,319,675
Annuities, life and health (b)	225,787	228,044	650,829	647,636
Other	13,434	5,178	33,418	13,014
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	\$943,429	\$1,014,836	\$2,787,235	\$2,980,325
	=====	=====	=====	=====
OPERATING PROFIT (LOSS)				
Property and casualty insurance:				
Underwriting:				
Specialty	\$ 4,706	(\$ 32,119)	\$ 17,377	(\$ 38,958)
Personal	(2,223)	(21,104)	(10,116)	(84,681)
Other lines (c)	56	(98,365)	(20,784)	(104,166)
	-----	-----	-----	-----
Investment and other income	2,539	(151,588)	(13,523)	(227,805)
	45,259	73,115	141,433	217,464
	-----	-----	-----	-----
	47,798	(78,473)	127,910	(10,341)
Annuities, life and health	7,387	36,959	40,476	84,417
Other (d)	(3,782)	(20,915)	(42,208)	(75,535)
	-----	-----	-----	-----
	\$ 51,403	(\$ 62,429)	\$ 126,178	(\$ 1,459)
	=====	=====	=====	=====

(a) Revenues include sales of products and services as well as other income earned by the respective segments.

(b) Represents primarily investment income.

(c) Represents development of lines in "run-off"; AFG has ceased underwriting new business in these operations.

(d) Includes holding company expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

- D. **GOODWILL** Effective January 1, 2002, goodwill is no longer amortized but is subject to annual impairment testing under a two step process. Under the first step, an entity's net assets are broken down into reporting units and compared to their fair value. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. AFG has completed the first step of its transitional impairment test and has identified potential impairment of goodwill in its annuities and life insurance segment and the personal lines segment of its property and casualty insurance business. The second step of the impairment test, that will measure the amount of impairment loss, will be completed by the end of the year with any resulting impairment charge reported by restating first quarter 2002 results for the cumulative effect of a change in accounting principle. Management believes that while an impairment charge may be as much as 15% of the carrying value of goodwill at September 30, 2002, it may be as little as half of that amount.

If the goodwill amortization of \$3.4 million (\$.05 per share, diluted) in the third quarter and \$10.3 million (\$.15 per share) in the first nine months of 2001 had not been expensed, net losses for the periods would have been \$52.3 million (\$.76 per share) and \$36.1 million (\$.53 per share), respectively.

- E. **LONG-TERM DEBT** The carrying value of long-term debt consisted of the following (in thousands):

	September 30, 2002 -----	December 31, 2001 -----
HOLDING COMPANIES:		
AFG 7-1/8% Senior Debentures due April 2009	\$301,251	\$301,108
AFG 7-1/8% Senior Debentures due December 2007	79,600	79,600
AFC notes payable under bank line	140,000	203,000
APU 10-7/8% Subordinated Notes due May 2011	11,512	11,557
Other	10,631	13,695
	-----	-----
	\$542,994	\$608,960
	=====	=====
SUBSIDIARIES:		
GAFRI 6-7/8% Senior Notes due June 2008	\$100,000	\$100,000
GAFRI notes payable under bank line	121,100	121,100
Notes payable secured by real estate	35,779	36,253
Other	13,844	13,399
	-----	-----
	\$270,723	\$270,752
	=====	=====

At September 30, 2002, scheduled principal payments on debt for the balance of 2002 and the subsequent five years were as follows (in millions):

	Holding Companies -----	Subsidiaries -----	Total -----
2002	\$147.6	\$ 1.4	\$149.0
2003	-	2.1	2.1
2004	-	123.3	123.3
2005	-	11.3	11.3
2006	-	19.6	19.6
2007	79.7	.2	79.9

AFC and GAFRI each have an unsecured credit agreement with a group of banks under which they can borrow up to \$300 million and \$155 million, respectively. Borrowings bear interest at floating rates based on prime or Eurodollar rates. Loans mature in December 2002 under the AFC credit agreement and in December 2004 under the GAFRI credit agreement. AFC's management expects to complete a replacement bank agreement by the end of November.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

F. MINORITY INTEREST Minority interest in AFG's balance sheet is comprised of the following (in thousands):

	September 30, 2002	December 31, 2001
	-----	-----
Interest of noncontrolling shareholders in subsidiaries' common stock	\$161,318	\$140,913
Preferred securities issued by subsidiary trusts	241,663	241,663
AFC preferred stock	72,154	72,154
	-----	-----
	\$475,135	\$454,730
	=====	=====

PREFERRED SECURITIES Wholly-owned subsidiary trusts of AFG and GAFRI have issued preferred securities and, in turn, purchased a like amount of subordinated debt which provides interest and principal payments to fund the respective trusts' obligations. The preferred securities must be redeemed upon maturity or redemption of the subordinated debt. AFG and GAFRI effectively provide unconditional guarantees of their respective trusts' obligations.

The preferred securities consisted of the following (in thousands):

Date of Issuance	Issue (Maturity Date)	September 30, 2002	December 31, 2001	Optional Redemption Dates
-----	-----	-----	-----	-----
October 1996	AFCH 9-1/8% T0PrS (2026)	\$98,750	\$98,750	Currently redeemable
November 1996	GAFRI 9-1/4% T0PrS (2026)	72,913	72,913	Currently redeemable
March 1997	GAFRI 8-7/8% Pfd (2027)	70,000	70,000	On or after 3/1/2007

AFC PREFERRED STOCK AFC's Preferred Stock is voting, cumulative, and consists of the following:

SERIES J, no par value; \$25.00 liquidating value per share; annual dividends per share \$2.00; redeemable at AFC's option at \$25.75 per share beginning December 2005 declining to \$25.00 at December 2007 and thereafter; 2,886,161 shares (stated value \$72.2 million) outstanding.

MINORITY INTEREST EXPENSE Minority interest expense is comprised of (in thousands):

	Nine months ended September 30,	
	2002	2001
	----	----
Interest of noncontrolling shareholders in earnings of subsidiaries	\$ 5,666	\$ 9,656
Effect of basis difference in realized gains (losses) of subsidiaries	(2,517)	-
Accrued distributions by subsidiaries on preferred securities:		
Trust issued securities, net of tax	10,711	13,361
AFC preferred stock	4,329	4,329
	-----	-----
	\$18,189	\$27,346
	=====	=====

G. SHAREHOLDERS' EQUITY At September 30, 2002, there were 68,973,532 shares of AFG Common Stock outstanding, including 1,361,958 shares held by American Premier for possible distribution to certain creditors and other claimants upon proper claim presentation and settlement pursuant to the 1978 plan of reorganization of American Premier's predecessor, The Penn Central Corporation. Shares being held for distribution are not eligible to vote but otherwise are accounted for as issued and outstanding. AFG is authorized to issue 12.5 million shares of Voting Preferred Stock and 12.5 million shares of Nonvoting Preferred Stock, each without par value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

At September 30, 2002, there were 9.7 million shares of AFG Common Stock reserved for issuance upon exercise of stock options. As of that date, options for 7 million shares were outstanding. Options generally become exercisable at the rate of 20% per year commencing one year after grant; those granted to non-employee directors of AFG are fully exercisable upon grant. Options generally expire ten years after the date of grant.

The change in unrealized gain on marketable securities for the nine months ended September 30 included the following (in millions):

	Pretax	Taxes	Minority Interest	Net
	-----	-----	-----	-----
2002				

Unrealized holding gains on securities arising during the period	\$184.1	(\$62.7)	(\$10.1)	\$111.3
Realized losses included in net income	88.5	(30.8)	(7.4)	50.3
	-----	-----	-----	-----
Change in unrealized gain on marketable securities, net	\$272.6	(\$93.5)	(\$17.5)	\$161.6
	=====	=====	=====	=====
2001				

Unrealized holding gains on securities arising during the period	\$158.5	(\$54.9)	(\$14.8)	\$ 88.8
Adoption of EITF 99-20	16.9	(6.0)	(0.9)	10.0
Realized losses included in net income and unrealized gains of subsidiary sold	33.1	(11.6)	(1.6)	19.9
	-----	-----	-----	-----
Change in unrealized gain on marketable securities, net	\$208.5	(\$72.5)	(\$17.3)	\$118.7
	=====	=====	=====	=====

- H. EQUITY IN LOSSES OF INVESTEEES Since 1998, AFG subsidiaries have made loans to two start-up manufacturing businesses which were previously owned by unrelated third-parties. During 2000, the former owners chose to forfeit their equity interests to AFG rather than invest additional capital.

During the fourth quarter of 2000, AFG sold the equity interests to a group of employees for nominal cash consideration plus warrants to repurchase a significant ownership interest. Due to the absence of significant financial investment by the buyers relative to the amount of loans (\$61.5 million at December 31, 2000) owed to AFG subsidiaries, the sale was not recognized as a divestiture for accounting purposes. Assets of the businesses transferred (\$53.5 million at September 30, 2002 and \$57.1 million at December 31, 2001) are included in other assets; liabilities of the businesses transferred (\$9.9 million at September 30, 2002 and \$11.8 million at December 31, 2001, after consolidation and elimination of loans from AFG subsidiaries) are included in other liabilities. Investee losses in the Statement of Operations represents AFG's equity in the losses of these two companies. One of the businesses is involved in litigation impacting its operations; see "Investee Corporations" in Management's Discussion and Analysis.

- I. COMMITMENTS AND CONTINGENCIES There have been no significant changes to the matters discussed and referred to in AFG's Quarterly Report on Form 10-Q for June 30, 2002 and in Note L "Commitments and Contingencies" of AFG's Annual Report on Form 10-K for 2001.

- J. SUBSEQUENT EVENT In October 2002, AFG announced that its newly-formed subsidiary, Infinity Property and Casualty Corporation ("Infinity"), filed a registration statement with the Securities and Exchange Commission with respect to an initial public offering of its common stock. All of the offered shares would be sold by AFG which will own approximately 30% of Infinity after the offering. Prior to the offering, AFG will transfer to Infinity the following subsidiaries involved primarily in the issuance of nonstandard auto policies: Atlanta

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Casualty Company, Infinity Insurance Company, Leader Insurance Company and Windsor Insurance Company. In addition, Great American Insurance Company, an AFG subsidiary, will transfer to Infinity its personal insurance business written through independent agents. The businesses being transferred generated aggregate net written premiums of approximately \$550 million and \$710 million for the nine months ended September 30, 2002 and 2001, respectively, and \$900 million for the year ended December 31, 2001. AFG expects to realize a gain on the sale, depending on the pricing of the shares being offered. The proceeds will be used primarily to reduce outstanding bank debt and to provide additional capital to AFG's remaining subsidiaries.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

AFG and its subsidiaries, AFC and American Premier, are organized as holding companies with almost all of their operations being conducted by subsidiaries. These parent corporations, however, have continuing cash needs for administrative expenses, the payment of principal and interest on borrowings, shareholder dividends, and taxes. Therefore, certain analyses are best done on a parent only basis while others are best done on a total enterprise basis. In addition, since most of its businesses are financial in nature, AFG does not prepare its consolidated financial statements using a current-noncurrent format. Consequently, certain traditional ratios and financial analysis tests are not meaningful.

IT INITIATIVE In 1999, AFG initiated an enterprise-wide project to study its information technology ("IT") resources, needs and opportunities. The initiative, involving improvements in physical infrastructure and business support systems, entails extensive effort and costs over a period of several years. While the costs precede the expected savings, management believes the benefits will exceed the costs incurred, all of which have been and will be funded through available working capital.

INDEPENDENT RATINGS In October 2002, the independent ratings of AFG's property and casualty subsidiaries were affirmed (at A) by Standard & Poor's and (at A+) by Fitch. The ratings of AFG's life and annuity subsidiaries were affirmed (at A+) by Fitch, but downgraded (from A to A-) by Standard & Poor's. Management of AFG's subsidiaries which market annuity products believes that a rating in the "A" category by at least one rating agency is necessary to successfully compete in certain annuity markets. Management intends to maintain the capital of its significant subsidiaries at levels currently indicated by the rating agencies as appropriate for their current ratings.

FORWARD-LOOKING STATEMENTS The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words such as "believes", "could", "expects", "may", "will", "should", "seeks", "intends", "plans", "estimates", "anticipates" or the negative version of those words or other comparable terminology. Examples of such forward-looking statements include statements relating to: expectations concerning market and other conditions and their effect on future premiums, revenues, earnings and investment activities; recoverability of asset values; expected losses and the adequacy of reserves for asbestos, environmental pollution and mass tort claims; rate increases, improved loss experience and expected expense savings resulting from recent initiatives.

Actual results could differ materially from those contained in or implied by such forward-looking statements for a variety of factors including:

- o changes in economic conditions, including interest rates, performance of securities markets, and the availability of capital;
- o regulatory actions;
- o changes in legal environment;
- o tax law changes;
- o levels of natural catastrophes, terrorist events, incidents of war and other major losses;

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

- o the ultimate amount of liabilities associated with certain asbestos and environmental-related claims;
- o adequacy of insurance reserves;
- o trends in mortality and morbidity;
- o availability of reinsurance and ability of reinsurers to pay their obligations;
- o competitive pressures, including the ability to obtain rate increases; and
- o changes in debt and claims paying ratings.

The forward-looking statements herein are made only as of the date of this report. AFG assumes no obligation to publicly update any forward-looking statements.

LIQUIDITY AND CAPITAL RESOURCES

RATIOS AFG's debt to total capital ratio (at the parent holding company level) was approximately 22% at September 30, 2002, and 27% at December 31, 2001.

SOURCES OF FUNDS Management believes the parent holding companies have sufficient resources to meet their liquidity requirements, primarily through funds generated by their subsidiaries' operations. If funds provided by subsidiaries through dividends and tax payments are insufficient to meet fixed charges in any period, the holding companies would be required to generate cash through borrowings, sales of securities or other assets, or similar transactions.

AFC has a revolving credit agreement with several banks under which it can borrow up to \$300 million until December 31, 2002. At September 30, 2002, \$140 million of the credit line had been used. On November 13, 2002, AFC borrowed an additional \$55 million on the credit line. These funds were used to provide additional capital to AFC's insurance subsidiaries. Management expects to complete a replacement bank agreement by the end of November. The new agreement will run for three years and be similar in size and terms to the old agreement. The interest rate on borrowings will be about 1% higher than under the old line.

INVESTMENTS AFG's investment portfolio at September 30, 2002, contained \$11.8 billion in "Fixed maturities" and \$279.5 million in "Other stocks", all carried at market value with unrealized gains and losses reported as a separate component of shareholders' equity on an after-tax basis. At September 30, 2002, AFG had pretax net unrealized gains of \$462.8 million on fixed maturities and \$106.5 million on other stocks.

Approximately 94% of the fixed maturities held by AFG at September 30, 2002, were rated "investment grade" (credit rating of AAA to BBB) by nationally recognized rating agencies. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated and noninvestment grade. Management believes that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

Individual portfolio securities are sold creating gains or losses as market opportunities exist. Since all of these securities are carried at market value in the balance sheet, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

Summarized information for the unrealized gains and losses recorded in AFG's balance sheet at September 30, 2002, is shown in the following table (dollars in millions). Approximately \$329 million of "Fixed maturities" and \$30 million of "Other stocks" had no unrealized gains or losses at September 30, 2002.

	Securities with Unrealized Gains -----	Securities With Unrealized Losses -----
Fixed Maturities		

Market value of securities	\$10,162	\$1,287
Amortized cost of securities	\$ 9,525	\$1,461
Gross unrealized gain or loss	\$ 637	\$ 174
Market value as % of amortized cost	107%	88%
Number of security positions	1,719	374
Number individually exceeding \$2 million gain or loss	37	26
Concentration of gains or losses by type or industry (exceeding 5% of unrealized):		
Mortgage-backed securities	\$ 175.9	\$ 8.4
U.S. government and government agencies	58.7	.9
Banks	53.7	-
State and municipal	46.0	3.8
Electric services	34.2	12.9
Asset-backed securities	19.9	9.6
Telephone communications	6.4	10.0
Air transportation	6.0	54.5
Cable television	2.3	9.2
Percentage rated investment grade	98%	68%
 Other Stocks		

Market value of securities	\$ 228	\$ 22
Cost of securities	\$ 109	\$ 34
Gross unrealized gain or loss	\$ 119	\$ 12
Market value as % of cost	209%	65%
Number individually exceeding \$2 million gain or loss	3	1

AFG's investment in equity securities of Provident Financial Group, a Cincinnati-based commercial banking and financial services company, represents \$110 million of the \$119 million in unrealized gains on other stocks at September 30, 2002.

The table below sets forth the scheduled maturities of fixed maturity securities at September 30, 2002, based on their market values.

Maturity -----	Securities with Unrealized Gains -----	Securities With Unrealized Losses -----
One year or less	6%	3%
After one year through five years	16	30
After five years through ten years	27	38
After ten years	14	15
	---	---
	63	86
Mortgage-backed securities	37	14
	---	---
	100%	100%
	===	===

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

AFG realized aggregate losses of \$9.2 million during the third quarter of 2002 on \$59.6 million in sales of fixed maturity securities (12 issues; 11 issuers) that had unrealized losses at June 30, 2002. Market values of five of the issues increased an aggregate of \$804,000 from June 30 to date of sale. Two of the securities were AAA-rated interest-only mortgage-backed securities ("IOs") that decreased in value by \$3.8 million from June 30 to the date of sale due to the decline in market interest rates. Market values of the remaining five securities decreased an aggregate of \$1.4 million from June 30 to the sale date. Four of the twelve issues had unrealized losses greater than \$500,000 at June 30. Actual losses on sale of these four securities were \$131,000 less than the unrealized loss at June 30. Although AFG had the ability to continue holding these investments, its intent to hold them changed due primarily to deterioration in the issuer's credit, decisions to lessen exposure to a particular credit or industry, or to modify asset allocation within the portfolio.

The table below (dollars in millions) summarizes the length of time securities have been in an unrealized gain or loss position at September 30, 2002.

	Aggregate Market Value -----	Aggregate Unrealized Gain (Loss) -----	Market Value as % of Cost Basis -----
FIXED MATURITIES			

SECURITIES WITH UNREALIZED GAINS:			
Exceeding \$500,000 at 9/30/02 and for:			
Less than one year (380 issues)	\$ 4,679	\$359	108.3%
More than one year (74 issues)	912	105	113.0
Less than \$500,000 at 9/30/02 (1,265 issues)	4,571	173	103.9
	-----	----	
	\$10,162	\$637	106.7
	=====	=====	
SECURITIES WITH UNREALIZED LOSSES:			
Exceeding \$500,000 at 9/30/02 and for:			
Less than one year (71 issues)	\$ 474	(\$108)	81.4%
More than one year (15 issues)	99	(35)	73.8
Less than \$500,000 at 9/30/02 (288 issues)	714	(31)	96.1
	-----	----	
	\$ 1,287	(\$174)	88.1
	=====	=====	

OTHER STOCKS

SECURITIES WITH UNREALIZED GAINS:

Exceeding \$500,000 at 9/30/02 and for:			
Less than one year (1 issue)	\$ 6	\$ 1	120.0%
More than one year (4 issues)	201	115	233.7
Less than \$500,000 at 9/30/02 (57 issues)	21	3	116.7
	-----	----	
	\$ 228	\$119	209.2
	=====	=====	

SECURITIES WITH UNREALIZED LOSSES:

Exceeding \$500,000 at 9/30/02 and for:			
Less than one year (3 issues)	\$ 4	\$ (7)	36.4%
More than one year (0 issues)	-	-	-
Less than \$500,000 at 9/30/02 (78 issues)	18	(5)	78.3
	-----	----	
	\$ 22	(\$ 12)	64.7
	=====	=====	

When a decline in the value of a specific investment is considered to be "other than temporary," a provision for impairment is charged to earnings (accounted for as a realized loss) and the cost basis of that investment is reduced. The determination of whether unrealized losses are "other than temporary" requires judgment based on subjective as well as objective factors. A listing of factors considered and resources used is contained in the discussion of "Investments" under Management's Discussion and Analysis in AFG's 2001 Form 10-K.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

Based on its analysis, management believes (i) AFG will recover its cost basis in the securities with unrealized losses and (ii) that AFG has the ability and intent to hold the securities until they mature or recover in value. Should either of these beliefs change with regard to a particular security, a charge for impairment would likely be required. While it is not possible to accurately predict if or when a specific security will become impaired, charges for other than temporary impairment could be material to results of operations in a future period. Management believes it is not likely that future impairment charges will have a significant effect on AFG's liquidity.

UNCERTAINTIES As more fully explained in the following paragraphs, management believes that the areas posing the greatest risk of material loss are the adequacy of its insurance reserves and American Premier's contingencies arising out of its former operations.

PROPERTY AND CASUALTY INSURANCE RESERVES Future costs of claims are projected based on historical trends adjusted for changes in underwriting standards, policy provisions, product mix and other factors. Estimating the liability for unpaid losses and LAE is inherently judgmental and is influenced by factors which are subject to significant variation. Through the use of analytical reserve development techniques, management monitors items such as the effect of inflation on medical, hospitalization, material, repair and replacement costs, general economic trends and the legal environment.

ASBESTOS AND ENVIRONMENTAL-RELATED ("A&E") Reserves Establishing reserves for A&E claims is subject to uncertainties that are significantly greater than those presented by other types of claims. Estimating ultimate liability for asbestos claims presents unique and difficult challenges to the insurance industry due to, among other things, inconsistent court decisions, an increase in bankruptcy filings as a result of asbestos-related liabilities, novel theories of coverage, and judicial interpretations that often expand theories of recovery and broaden the scope of coverage. The casualty insurance industry is engaged, as is AFG, in extensive litigation over these coverage and liability issues as the volume and severity of claims against asbestos defendants continue to increase.

While management believes that AFG's reserves for A&E claims are a reasonable estimate of ultimate liability for such claims, actual results may vary materially from the amount currently recorded due to outstanding issues and uncertainties such as whether coverage exists, whether claims are to be allocated among triggered policies and implicated years, whether claimants who exhibit no signs of illness will be successful in pursuing their claims, predicting the number of future claims, and the impact of recent bankruptcy filings.

Further, certain policyholders assert that each bodily injury claim should be treated as a separate occurrence under the policy, and that their claims are not subject to aggregate limits on coverage because either their policies did not contain aggregate limits with respect to products liability coverage or, faced with exhaustion of products coverage limits, their asbestos claims fall within non-products liability coverage which is not subject to any aggregate limit. These claims are now being contested in insurance coverage litigation in various jurisdictions. In rejecting the claims that are the basis of this litigation, AFG believes its coverage defenses are substantial and intends to continue to vigorously defend its position. Nonetheless, the outcome of disputes related to asbestos and environmental matters, whether through litigation or negotiation, may result in liabilities exceeding current related reserves by amounts that

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

could have a material adverse effect upon AFG's results of operations and financial condition.

For further discussion of uncertainties and litigation involving AFG, see "Legal Proceedings" in AFG's Annual Report on Form 10-K for 2001 and Quarterly Report on Form 10-Q for June 30, 2002.

RESULTS OF OPERATIONS

GENERAL Results of operations as shown in the accompanying financial statements are prepared in accordance with generally accepted accounting principles. Many investors and analysts focus on "core earnings" of companies, setting aside certain items included in net earnings. Nonetheless, these items are significant components of AFG's overall financial results.

The following table reconciles AFG's operating earnings before income taxes as shown in the Statement of Operations to "core earnings" as generally referred to in quarterly news releases and independent financial analysts' reports (in millions, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2002 ----	2001 ----	2002 ----	2001 ----
Operating earnings (loss) before income taxes	\$51.4	(\$ 62.4)	\$126.2	(\$ 1.5)
Adjustments for normal items:				
Eliminate net realized (gains) losses	24.6	(7.0)	90.0	27.8
Include minority interest	(10.6)	(11.0)	(32.3)	(36.0)
Adjustments for unusual items:				
Add back special A&E charge	-	100.0	-	100.0
Add back World Trade Center losses	-	25.0	-	25.0
	-----	-----	-----	-----
	65.4	44.6	183.9	115.3
Provision for income taxes	22.1	16.7	44.9	41.7
	-----	-----	-----	-----
Core earnings from insurance businesses	\$43.3	\$ 27.9	\$139.0	\$ 73.6
	=====	=====	=====	=====
Core earnings per Common Share (diluted)	\$.62	\$.41	\$2.01	\$1.08
	=====	=====	=====	=====

"Core earnings" for the first nine months of 2002 include a \$16 million (\$.23 per share) first quarter tax benefit resulting from the reduction of previously accrued amounts due to the resolution of certain tax matters. "Core earnings" for 2001 include goodwill amortization expense of \$3.4 million (\$.05 per share) in the third quarter and \$10.3 million (\$.15 per share) for the first nine months.

The special A&E charge and World Trade Center losses recorded in 2001 are segregated as "unusual items" in the above table due to their significance in size and infrequency in occurrence. Nonetheless, these items (as well as the other items in the table above) are significant components of AFG's overall financial results for the year.

The improvement in "core earnings" in the comparable third quarter and nine month results was due primarily to significantly improved property and casualty underwriting results.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

PROPERTY AND CASUALTY INSURANCE - UNDERWRITING AFG's property and casualty group consists of two major business groups: Specialty and Personal.

The Specialty group includes a highly diversified group of business lines. Some of the more significant areas are inland and ocean marine, California workers' compensation, agricultural-related coverages, executive and professional liability, fidelity and surety bonds, collateral protection, and umbrella and excess coverages.

The Personal group sells nonstandard and preferred/standard private passenger auto insurance and, to a lesser extent, homeowners' insurance. Nonstandard automobile insurance covers risk not typically accepted for standard automobile coverage because of an applicant's driving record, type of vehicle, age or other criteria.

Underwriting profitability is measured by the combined ratio which is a sum of the ratios of underwriting losses, loss adjustment expenses, underwriting expenses and policyholder dividends to premiums. When the combined ratio is under 100%, underwriting results are generally considered profitable; when the ratio is over 100%, underwriting results are generally considered unprofitable. The combined ratio does not reflect investment income, other income or federal income taxes.

Premiums and combined ratios for AFG's property and casualty insurance subsidiaries were as follows (dollars in millions):

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
Gross Written Premiums (GAAP)				
Specialty	\$ 839.5	\$653.3	\$2,050.8	\$1,663.9
Personal	280.7	295.9	956.6	975.8
Other lines	-	-	.3	.2
	<u>\$1,120.2</u>	<u>\$949.2</u>	<u>\$3,007.7</u>	<u>\$2,639.9</u>
Net Written Premiums (GAAP)				
Specialty	\$ 474.2	\$417.3	\$1,254.7	\$1,167.7
Personal (a)	150.9	190.6	652.2	813.1
Other lines	-	-	.3	-
	<u>\$ 625.1</u>	<u>\$607.9</u>	<u>\$1,907.2</u>	<u>\$1,980.8</u>
Combined Ratios (GAAP)				
Specialty (b)	98.8%	108.3%	98.4%	103.7%
Personal	101.2	107.7	101.5	109.2
Aggregate (including discontinued lines) (c)	99.6	122.8	100.8	111.4

- (a) Reflects the ceding of \$127 million and \$298 million in premiums in the third quarter and nine months of 2002 compared to \$98 million and \$148 million in the comparable 2001 periods under a reinsurance agreement (effective April 1, 2001).
- (b) Includes 6.5% and 2.3% for the three and nine month periods of 2001 relating to the attack on the World Trade Center.
- (c) Includes an aggregate of 18.8% and 6.2% for the three and nine month periods of 2001 relating to the A&E charge and the attack on the World Trade Center.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

SPECIAL A&E CHARGE During the third quarter of 2001, AFG recorded an A&E charge of \$100 million after experiencing an increase in the number and severity of asbestos claims and observing the developments of adverse trends in the property and casualty insurance industry concerning asbestos losses. This charge, accompanied by a transfer of \$36 million from excess reserves for other environmental claims, resulted in an increase of \$136 million in asbestos reserves. For a discussion of the uncertainties relative to asbestos and environmental claims, see MD&A - "Uncertainties - Asbestos and Environmental-related Reserves."

SPECIALTY The Specialty group's gross written premiums increased 28% for the third quarter and 23% for the nine months of 2002 over the comparable 2001 periods. These increases reflect the impact of rate increases and the realization of growth opportunities in certain commercial markets, partially offset by the decision to discontinue certain lines of business (during 2001) that were not achieving adequate returns. Specialty rate increases averaged over 30% during the first nine months of 2002 and are expected to be in excess of 30% for the year. Net written premiums increased 14% for the third quarter and 7% for the nine months over the comparable 2001 periods. Strong growth in gross written premiums was offset by increased reinsurance coverage in certain lines.

Excluding the effect of the attack on the World Trade Center, the Specialty group's combined ratio improved 3 points for both the third quarter and first nine months of 2002. The improvement reflects strategic changes in the mix of specialty businesses and the impact of rate increases.

PERSONAL The Personal group's gross written premiums for the third quarter decreased 5% compared to the third quarter of 2001 due primarily to intentional reductions in new business volume in certain markets and through the direct channel, partially offset by the effect of continuing rate increases. Rate increases implemented in the first nine months of 2002 were 10% and are expected to be slightly above 10% for the year. Effective April 1, 2001, AFG began reinsuring 80% of the automobile physical damage business written by three of its insurance subsidiaries. In July 2001, the agreement was amended to increase the level of reinsurance to 90% and to add an additional insurance subsidiary. In September 2002, our use of the existing agreement was expanded to include physical damage business written by agents of Great American Insurance pool companies. This agreement enables AFG to reallocate some of its capital to the more profitable specialty operations. The decline in net written premiums for the third quarter and nine months reflects the impact of this reinsurance agreement.

As a result of rate increases implemented over the last year, the Personal group's combined ratio improved by 6.5 points for the third quarter and 7.7 points for the nine months compared to the 2001 periods. Nearly 90% of the Personal group's business is written through independent agents. Business written through this distribution channel achieved an underwriting profit for the fourth consecutive quarter with a combined ratio of about 98% for the first nine months of 2002. This business comprises the insurance operations to be included in the recently announced proposed public offering of Infinity Property and Casualty Corporation.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

LIFE, ACCIDENT AND HEALTH PREMIUMS AND BENEFITS Life, accident and health premiums increased for the third quarter and first nine months of 2002 compared to the 2001 periods due primarily to the acquisition of Manhattan National Life in June 2002 and growth in GAFRI's existing operations. In addition to this growth, life, accident and health benefits for the 2002 periods reflect the effects of adverse mortality in GAFRI's life insurance operations.

REAL ESTATE OPERATIONS AFG's subsidiaries are engaged in a variety of real estate operations including hotels, apartments, office buildings and recreational facilities; they also own several parcels of land. Revenues and expenses of these operations, including gains and losses on disposal, are included in AFG's Statement of Operations as shown below (in millions).

	Three months ended September 30,		Nine months ended September 30,	
	2002 ----	2001 ----	2002 ----	2001 ----
Other income	\$26.0	\$24.3	\$70.9	\$85.7
Other operating and general expenses	19.8	17.9	52.0	49.5
Interest charges on borrowed money	.6	.3	1.9	1.6
Minority interest expense, net	.6	.2	1.0	3.5

Other income includes net pretax gains on the sale of real estate assets of \$87,000 in the third quarter and \$7.7 million in the first nine months of 2002 compared to \$2.0 million and \$26.6 million for the 2001 periods.

OTHER INCOME Excluding gains on sales of real estate assets (discussed above), other income increased \$11.6 million (21%) for the third quarter and \$24.1 million (17%) for the first nine months of 2002 compared to 2001 due primarily to higher income from real estate operations (including the effect of a hotel acquired in May 2002), fees earned by the Specialty group's new warranty business and higher fee income in certain other specialty insurance operations.

REALIZED GAINS Realized capital gains have been an important part of the return on investments. Individual assets are sold creating gains and losses as market opportunities exist.

LOSSES ON SECURITIES Realized losses on securities include provisions for other than temporary impairment of securities still held as follows: third quarter of 2002 and 2001 - \$49.8 million and \$22.9 million; nine months of 2002 and 2001 - \$138.2 million and \$60.1 million, respectively. Increased impairment charges in recent years reflect a rise in corporate defaults in the marketplace. The increase in impairment charges in 2002 reflects primarily the downturn in the communications and airline industries and writedowns of certain asset-backed securities.

Warrants to purchase common stock of publicly traded companies are generally considered derivatives and marked to market through current earnings as realized gains and losses. Realized losses on securities include losses of \$7.5 million in the third quarter of 2002 and \$6.9 million for the first nine months of 2002 compared to gains of \$60,000 and \$2.4 million in the 2001 periods to adjust the carrying value of AFG's investment in warrants to market value (\$18.8 million at September 30, 2002).

GAINS (LOSSES) ON SUBSIDIARIES In September 2002, AFG recognized a \$10.8 million pretax loss on the disposal of its New Jersey private passenger auto business. In 2001, AFG recognized a third quarter pretax gain of \$7.1 million on the sale

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

of Seven Hills Insurance Company and a first quarter \$1.6 million pretax loss in connection with the sale of the Japanese division.

GAIN ON OTHER INVESTMENTS In September 2002, AFG realized a \$9.3 million pretax gain on the sale of its minority ownership in a residential homebuilding company.

ANNUITY BENEFITS Annuity benefits reflect amounts accrued on annuity policyholders' funds accumulated. The majority of GAFRI's fixed rate annuity products permit GAFRI to change the crediting rate at any time (subject to minimum interest rate guarantees of 3% or 4% per annum). Historically, management has been able to react to changes in market interest rates and maintain a desired interest rate spread. The recent interest rate environment has resulted in spread compression which could continue through 2003.

OTHER OPERATING AND GENERAL EXPENSES Other operating and general expenses for the third quarter and first nine months of 2001 include goodwill amortization of \$3.4 million and \$10.3 million, respectively. Under SFAS No. 142, which was implemented January 1, 2002, goodwill is no longer amortized. Excluding 2001 goodwill amortization, other operating and general expenses increased \$20.7 million (18%) for the third quarter and \$40.2 million (12%) for the first nine months compared to 2001. Expenses of the Specialty group's new warranty business, higher expenses in real estate operations (due primarily to the acquisition of a new hotel in May 2002), higher expenses related to growth in certain other Specialty operations and increased amortization of annuity and life deferred policy acquisition costs ("DPAC") were partially offset by lower IT-related expenses. The increase in amortization of annuity and life DPAC in the third quarter and the first nine months of 2002 compared to the same periods in 2001 reflects (i) the accelerated write-off of variable annuity DPAC due to the effect of the decline in the stock market and (ii) higher average DPAC balances due to internal growth and acquisitions.

INCOME TAXES The 2002 provision for income taxes includes a \$16 million first quarter tax benefit for the reduction of previously accrued amounts due to the resolution of certain tax matters.

INVESTEE CORPORATIONS Equity in losses of investee corporations represents losses of two start-up manufacturing businesses (see Note H). In November 2001, an injunction was issued against one of the companies which would prohibit it from using equipment subject to litigation alleging the misappropriation of a trade secret and would effectively close the plant. The injunction was subsequently modified to permit operations to continue and require certain escrow payments. Since the injunction was imposed, the investee manufactured and has installed equipment that it believes does not misappropriate a trade secret; the equipment subject to the injunction was destroyed. As a result, the injunction no longer affects plant operations and escrow payments are no longer required. Even so, if the investee's operating results fail to improve, a substantial portion of AFG's investment (\$30.4 million as of September 30, 2002), may be written off.

CUMULATIVE EFFECT OF ACCOUNTING CHANGE The cumulative effect of accounting change represents the implementation of a new accounting standard (EITF 99-20) which resulted in a write down of \$16.9 million (\$10.0 million or \$.15 per share after tax and minority interest) of the carrying value of certain collateralized debt obligations as of April 1, 2001.

PROPOSED ACCOUNTING STANDARD GAFRI's variable annuity contracts contain a guaranteed minimum death benefit ("GMDB") (which may exceed the value of the

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

policyholder's account) to be paid if the annuityholder dies before the annuity payout period commences. At September 30, 2002, and December 31, 2001, the aggregate GMDB values (assuming every policyholder died on those dates) exceeded the market value of the underlying variable annuities by \$253 million and \$136 million, respectively. Industry practice varies, but GAFRI does not establish GAAP reserves for this mortality risk. If a proposed accounting standard becomes effective, GAFRI would be required to record a liability for the present value of expected GMDB payments. Initial recognition of a GAAP liability (estimated to be between 2% and 4% of the aggregate difference) would be accounted for as the cumulative effect of a change in accounting principles.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

As of September 30, 2002, there were no material changes to the information provided in AFG's Form 10-K for 2001 under the caption "Exposure to Market Risk" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4

CONTROLS AND PROCEDURES

AFG's chief executive officer and chief financial officer, with assistance from management, have evaluated AFG's disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) as of a date within 90 days prior to filing this report. Based on that evaluation, they concluded that the controls and procedures are effective. There have been no significant changes in AFG's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II
OTHER INFORMATION

ITEM 6

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit 99 - Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

Date of Report -----	Item Reported -----
August 12, 2002	Statement Under Oath of Principal Executive Officer and Principal Financial Officer Regarding Facts and Circumstances Relating to Exchange Act Filings
October 9, 2002	Registration Statement filed - Infinity Property and Casualty Corporation (new subsidiary)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, American Financial Group, Inc. has duly caused this Report to be signed on its behalf by the undersigned duly authorized.

American Financial Group, Inc.

November 13, 2002

BY: Fred J. Runk

Fred J. Runk
Senior Vice President and Treasurer

SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS

I, Carl H. Lindner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Financial Group, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 13, 2002

BY: /s/Carl H. Lindner

Carl H. Lindner
Chairman of the Board and
Chief Executive Officer
(principal executive officer)

SARBANES-OXLEY SECTION 302(a) CERTIFICATIONS - CONTINUED

I, Fred J. Runk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Financial Group, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 13, 2002

BY: /s/Fred J. Runk

Fred J. Runk
Senior Vice President and Treasurer
(principal financial officer)

EXHIBIT 99

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing with the Securities and Exchange Commission of the Quarterly Report of American Financial Group, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 (the "Report"), the undersigned officers of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 13, 2002

Date

BY: Carl H. Lindner

Carl H. Lindner
Chairman of the Board and
Chief Executive Officer

November 13, 2002

Date

BY: Fred J. Runk

Fred J. Runk
Senior Vice President and Treasurer